

Matzikama Municipality



Adjustment Budget 2014/15 – 2016/17

Adjusted Medium Term Revenue
and Expenditure Framework

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Glossary

Adjustments Budget - Prescribed in section 28 of the MFMA. The formal means by which a municipality may revise its annual budget during the year.

Allocations - Money received from Provincial or National Government or other municipalities.

Budget - The financial plan of the Municipality.

Budget Related Policy - Policy of a municipality affecting or affected by the budget, examples include tariff policy, rates policy and credit control and debt collection policy.

Capital Expenditure - Spending on assets such as land, buildings and machinery. Any capital expenditure must be reflected as an asset on the Municipality's balance sheet.

Cash flow statement - A statement showing when actual cash will be received and spent by the Municipality. Cash payments do not always coincide with budgeted expenditure timings. For example, when an invoice is received by the Municipality it is shown as expenditure in the month it is received, even though it may not be paid in the same period.

DORA - Division of Revenue Act. Annual legislation that shows the total allocations made by national to provincial and local government.

Equitable Share - A general grant paid to municipalities. It is predominantly targeted to help with free basic services.

Fruitless and wasteful expenditure - Expenditure that was made in vain and would have been avoided had reasonable care been exercised.

GFS - Government Finance Statistics. An internationally recognised classification system that facilitates like for like comparison between municipalities.

GRAP - Generally Recognised Accounting Practice. The new standard for municipal accounting.

IDP - Integrated Development Plan. The main strategic planning document of the Municipality

KPI's - Key Performance Indicators. Measures of service output and/or outcome.

MFMA - The Municipal Finance Management Act - No. 53 of 2003. The principle piece of legislation relating to municipal financial management.

MTREF - Medium Term Revenue and Expenditure Framework. A medium term financial plan, usually 3 years, based on a fixed first year and indicative further two years budget allocations. Also includes details of the previous and current years' financial position.

Net Assets - Net assets are the residual interest in the assets of the entity after deducting all its liabilities. This means the net assets of the municipality equates to the "net wealth" of the municipality, after all assets were sold/recovered and all liabilities paid. Transactions which do not meet the definition of Revenue or Expenses, such as increases in values of Property, Plant and Equipment where there is no inflow or outflow of resources are accounted for in Net Assets.

Operating Expenditure - Spending on the day to day expenses of the Municipality such as salaries and wages.

Rates - Local Government tax based on the assessed value of a property. To determine the rates payable, the assessed rateable value is multiplied by the rate in the rand.

SDBIP - Service Delivery and Budget Implementation Plan. A detailed plan comprising quarterly performance targets and monthly budget estimates.

Strategic Objectives - The main priorities of the Municipality as set out in the IDP. Budgeted spending must contribute towards the achievement of the strategic objectives.

Unauthorised expenditure - Generally, spending without, or in excess of, an approved budget.

Virement - A transfer of budget.

Vote - One of the main segments of a budget. The structure is for reporting requirements and links the accounting performance both to the IDP and to the responsible officials. The vote structure at Matzikama is made up as follows:

Vote 1	Executive & Council
1.1	Council
1.2	Local Economic Development
1.3	Municipal Manager
1.4	DMA
1.5	Tourism
Vote 2	Finance
2.1	Equitable Share
2.2	Expenses
2.3	Finance
2.4	Income
2.5	Taxes
Vote 3	Corporate
3.1	Corporate
3.2	Human Resources
3.3	Property Management
3.4	I.T
3.5	Town Planning
3.6	Libraries
Vote 4	Community Services
4.1	Community Halls
4.2	Cemetries
4.3	Housing
4.4	Traffic
4.5	Vehicle Licencing
4.6	Sport and Recreation Vredendal
4.7	Refuse Removal Vredendal
4.8	Street Cleansing Vredendal
Vote 5	Technical
5.1	Cemetries Outside Towns
5.2	Sport and Recreation Outside Towns
5.3	Resorts
5.4	Refuse Removal Outside Towns
5.5	Sewerage
5.6	Roads
5.7	Steet Cleancing Outside Towns
5.8	Water Distributions
5.9	Electricity Distributions

PART 1 - ANNUAL BUDGET

Section 1 - Mayor's Report

It is with great pleasure that I present the 2014/2015 Adjustment Budget to the Council for consideration.

The reason for the tabling of an adjustment budget is fully disclosed in the executive summary of the budget documentation. The adjustments were necessary as a result of changes and additions in grant funding as well as adjustments required in a bid to effectively manage cash flow.

Council is still committed to ensure high quality basic services and is very aware of the pressure on disposable income levels.

The main adjustments proposed in this adjustment budget are:

Operating Budget

- 1) An increase in total revenue amounting to R5, 052 million. This increase is mainly as a result of the following -
 - a. An increase in the levied service charges revenue for electricity, sewerage, refuse and water.
 - b. Provincial Allocations in the Revised Government Gazette published for:
 - Provincial Financial Management Grant R0.490 million
 - Municipal Infrastructure Support Grant R0.250 million
 - Municipal Capacity Building Grant R0.500 million
 - Municipal Performance Management Grant R0.100 million
- 2) An increase in certain operating expenditure items amounting to R5, 256 million. This increase was necessary to fund critical expenditure items, of which the material adjustments are listed below -
 - a. An increase in the bad debt contribution as it's legislatively requirement to make a contribution towards a bad debt provision. After detailed analysis of outstanding debtors older than 1 year, it was deemed necessary to increase the provision.

- b. An increase in electricity and water bulk purchases of R 2,400 million. This increase was necessitated by the increased electricity and water demand and higher bulk tariffs.

The net effect from these adjustments inclusive of reducing expenditure resulted in the projected operating surplus for the year (excluding capital transfers) previously stated at R1, 01 million, declining to R0, 807 million.

Capital Budget

The municipality increased its planned capital expenditure from R 27,680 million to R38, 948 million. This increase is mainly attributed to a movement of the Housing Grant Funding from the operational budget to the capital budget and the reduced 2013/2014 MIG roll over approval.

The revised forecasted expenditure can be summarised as follows: (R 000)

TYPE	2014/2015	2015/2016	2016/2017
Operating	232 013	263 515	284 302
Capital	38 948	26 746	26 490
TOTAL	270 961	290 261	310 792

Funding and Cash flows

The revised budget for 2014/2015 is cash-funded.

The expected Cash flows for the MTREF period is as follows (R'000)

Source	2014/2015	2015/2016	2016/2017
NET CASH FROM/(USED) OPERATING ACTIVITIES	36 381	44 677	13 152
NET CASH FROM/(USED) INVESTING ACTIVITIES	(31 448)	(18 804)	(18 110)
NET CASH FROM/(USED) FINANCING ACTIVITIES	(5 828)	(5 837)	(3 668)
NET INCREASE/ (DECREASE) IN CASH HELD	(895)	20 037	(8 626)
Cash/cash equivalents at the year begin:	2 319	1 804	21 841
Cash/cash equivalents at the yearend:	1 804	21 841	13 215

As can be seen from the above illustrations, the municipality's cash resources are envisaged to increase over the MTREF period provided that prudent financial management and budgetary constraints are maintained to be in line with cash flow. We have to plan accordingly and embark on strategies to do more with less in order for this municipality to be in a position to deliver sustainable services over the long-term. It must be emphasised that the reference to increased cash resources refer to planned or budgeted cash and not actual as budgets are planned on the principles of management accounting.

I believe we have done all in our power to address service delivery requirements within our financial means and would like to thank our community for their patience and inputs into the I.D.P. process, my fellow Councillors for their continued hard work and support as well as the Municipal Manager and his staff for all their efforts.

Unforeseen and unavoidable expenditure

None to report.

Changes to allocations and grant adjustments

Changes to expected grant expenditure are reflected below. Full details regarding income and allocations are disclosed in documentation forms SB7 to SB9.

Recommendations

It is recommended:

- 1) That the Council approves the adjustments budget; and
- 2) That the Council approves the changes to the service delivery and budget implementation plan.

Section 2 - Budget Related Resolutions

ADJUSTMENT BUDGET 2014/2015

The resolution to be tabled at Council for consideration of approval of the adjustments budget is:

RECOMMENDATION:

- a) That the adjustments budget, inclusive of the adjustments as envisaged by section 28(2) of the MFMA, for the financial year 2014/2015; and indicative for the two projected years 2015/16 and 2016/17, as set-out in the schedules contained in Section 4, be approved:
 - (i) Table B1 Adjustments Budget Summary;
 - (ii) Table B2 Adjustments Budget Financial Performance (by standard classification);
 - (iii) Table B3 Adjustments Budget Financial Performance (by municipal vote);
 - (iv) Table B4 Adjustments Budget Financial Performance (revenue by source); and
 - (v) Table B5 Adjustments Budget Capital Expenditure (by municipal vote and funding source)
- b) That the amended performance objectives as contained in the SDBIP be approved (Attached supporting documentation form).

Section 3 - Executive Summary

Introduction

The financial position of Matzikama Municipality is still under pressure at this stage. It is however advised that new funding sources be exploited to fund the capital program (i.e. more own revenue or additional grant funding). The current financing structure places enormous strain on the accumulated reserves of the municipality and it is inevitable that all reserves will be depleted in the near future. This will result in a major downturn in capital expenditure in future periods that could result in a slowdown of economic growth in the municipal area.

Management should always strive to maintain, and where possible increase accumulated reserves. This is however only possible if capital projects from own resources are reduced and or additional revenue streams are accessed in order to ensure a sustainable long term capital expansion plan.

Effect of the adjustment budget

The overall changes made to the 2014/2015 budget can be best illustrated in the charts below.

Revenue (Excluding Capital Grant Revenue)

Source	GrpItem	Sum of APPROVED BUDGET 2014/15	Sum of ADJUSTMENT	Sum of ADJUSTMENT BUDGET 2014/15
INC	Agency Services	-2 000 000	-200 000	-2 200 000
	Fines	-1 527 500	-617 000	-2 144 500
	Gains on Disposal of PPE	-7 500 000	0	-7 500 000
	Interest Earned - external Investments	-190 000	-310 000	-500 000
	Interest earned - outstanding debtors	-1 973 863	0	-1 973 863
	Licences and Permits	-1 680 650	-920	-1 681 570
	Other Revenue	-2 308 865	-481 156	-2 790 021
	Property rates	-31 210 077	-2 831 106	-34 041 183
	Rental of Facilities and Equipment	-4 007 994	-101 650	-4 109 644
	Service charges - electricity revenue	-80 964 765	-4 121 307	-85 086 072
	Service charges - refuse revenue	-11 272 314	-2 246 757	-13 519 071
	Service charges - sanitation revenue	-13 089 690	-128 460	-13 218 150
	Service charges - water revenue	-13 172 284	-1 057 153	-14 229 437
	Transfers recognised - operational	-56 870 000	7 043 153	-49 826 847
INC Total		-227 768 003	-5 052 355	-232 820 357

Revenue (Including Capital Transfers)

Budgeted capital grant revenue from national and provincial government increased from R23, 853 million to R33,451 million, mainly due to the movement of the Integrated Human Settlement Development Grant revenue and the 2013/2014 MIG roll-over .

Source	GrpItem	Sum of APPROVED BUDGET 2014/15	Sum of ADJUSTMENT	Sum of ADJUSTMENT BUDGET 2014/15
INC	Agency Services	-2 000 000	-200 000	-2 200 000
	Fines	-1 527 500	-617 000	-2 144 500
	Gains on Disposal of PPE	-7 500 000	0	-7 500 000
	Interest Earned - external Investments	-190 000	-310 000	-500 000
	Interest earned - outstanding debtors	-1 973 863	0	-1 973 863
	Licences and Permits	-1 680 650	-920	-1 681 570
	Other Revenue	-2 308 865	-481 156	-2 790 021
	Property rates	-31 210 077	-2 831 106	-34 041 183
	Rental of Facilities and Equipment	-4 007 994	-101 650	-4 109 644
	Service charges - electricity revenue	-80 964 765	-4 121 307	-85 086 072
	Service charges - refuse revenue	-11 272 314	-2 246 757	-13 519 071
	Service charges - sanitation revenue	-13 089 690	-128 460	-13 218 150
	Service charges - water revenue	-13 172 284	-1 057 153	-14 229 437
	Transfers recognised - capital	-23 853 000	-9 598 166	-33 451 165
	Transfers recognised - operational	-56 870 000	7 043 153	-49 826 847
INC Total		-251 621 003	-14 650 520	-266 271 523

Operating Expenditure

The operational expenditure budget has been adjusted upwards from R 226, 757 million to R 232, 013 million.

Source	GrpItem	Sum of APPROVED BUDGET 2014/15	Sum of ADJUSTMENT	Sum of ADJUSTMENT BUDGET 2014/15
EXP	Bulk purchases	69 964 818	2 400 000	72 364 818
	Contracted services	110 000	0	110 000
	Debt Impairment	6 000 000	6 660 000	12 660 000
	Depreciation & asset impairment	13 071 681	-1 300 000	11 771 681
	Employee related costs	81 979 770	1 283 769	83 263 539
	Finance Charges	7 381 800	593 000	7 974 800
	Other expenditure	41 556 010	-4 380 926	37 175 085
	Remuneration of Councillors	5 756 447	0	5 756 447
	Transfers and grants	936 520	0	936 520
EXP Total		226 757 046	5 255 843	232 012 889

The new projected forecasts for the MTREF are as follows:

OPERATING BUDGET (R' 000)

Type	2014/15	2015/16	2016/17
Revenue	266 270	293 066	314 665
Expenditure	(232 013)	(263 515)	(284 302)
Surplus/(Deficit)	34 259	29 552	30 363
Less: Capital Grants	(33 451)	(23 879)	(24 645)
Surplus/(Deficit) excluding capital grants	807	5 673	5 718

CAPITAL BUDGET (R' 000)

Asset type	2014/15	2015/16	2016/17
Community	4 790	200	0
Infrastructure - Electricity	2 058	3 000	5 000
Infrastructure - Other	779	0	0
Infrastructure - Road transport	8 535	8 500	1 000
Infrastructure - Sanitation	16 729	250	3 766
Infrastructure - Water	3 389	12 539	15 129
Intangibles	0	0	0
Other assets	2 667	2 257	1 595
Total	38 948	26 746	26 490

The projected funding of the capital budget is as follows: (R 000)

Funding Source	2014/15	2015/16	2016/17
National Government	25 243	23 879	24 645
Provincial Government	8 208	0	0
Own Funds	5 497	2 867	1 845
Total	38 948	26 746	26 490

BUDGET SUMMARY

A summary of the revised budget can be seen on table B1.

Section 4 - Adjustment budget tables

The adjustments budget tables are attached to this document as Tables B1 to B 10. Tables supporting the above (SB1 to SB20) are also attached and listed separately.

The Budget tables are:

Table B1 - Adjustments Budget Summary

Table B2 - Adjustments Budgeted Financial Performance (revenue and expenditure by standard classification)

Table B3 - Adjustments Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table B4 - Adjustments Budgeted Financial Performance (revenue and expenditure)

Table B5 - Adjustments Budgeted Capital Expenditure by vote, standard classification and funding

Table B6 - Adjustments Budgeted Financial Position

Table B7 - Adjustments Budgeted Cash Flows

Table B8 - Adjustments Cash backed reserves/accumulated surplus reconciliation

Table B9 - Adjustments Budget Asset Management

Table B10 - Adjustments Budget Basic service delivery measurement

The municipality does not have any entities for which adjustments budgets must be prepared. The municipality is currently investigating vehicles to start a entity in respect of LED.

PART 2 - SUPPORTING DOCUMENTATION

Section 5 - Measurable performance objectives and indicators

Changes to measurable performance objectives and indicators are included in the supporting tables (SB3) attached. These indicators are part of the indicators contained in the Service Delivery and Budget Implementation Plan, which again forms the basis of the performance contracts of the Municipal Manager and Senior Management.

Section 6 - Budget related policies

There are no changes to the budget related policies proposed in the adjustments budget.

Section 7 - Overview of budget assumptions

Budget Assumptions

There are no changes to the budget assumptions proposed in the adjustments budget.

Section 8 - Funding compliance

The adjustments budget is cash-funded which is the first indicator of a "credible" budget.

	2014/2015	2015/2016	2016/201
Cash and investments available	1 804	21 841	13 215
Application of cash and investments	(3 926)	(1 808)	(17 578)
Surplus/(Shortfall)	5 730	23 649	30 793

Section 9 - Overview of budget funding

Funding the Budget

Section 18(1) of the MFMA states that an annual budget may only be funded from:

- Realistically anticipated revenues to be collected;
- Cash backed accumulated funds from previous years' surpluses not committed for other purposes; and
- Borrowed funds, but only for the capital budget referred to in section 17.

Achievement of this requirement in totality effectively means that a Council has 'balanced' its budget by ensuring that budgeted outflows will be offset by a combination of planned inflows.

A Credible Budget

Amongst other things, a credible budget is a budget that:

- Funds only activities consistent with the revised IDP and vice versa ensuring the IDP is realistically achievable given the financial constraints of the municipality;
- Is achievable in terms of agreed service delivery and performance targets;
- Contains revenue and expenditure projections that are consistent with current and on past performance and supported by documented evidence of future assumptions;
- Does not jeopardise the financial viability of the municipality (ensures that the financial position is maintained within generally accepted prudential limits and that obligations can be met in the short, medium and long term); and
- Provides managers with appropriate levels of delegation sufficient to meet their financial management responsibilities.

A budget sets out certain service delivery levels and associated financial implications. Therefore the community should realistically expect to receive these promised service delivery levels and understand the associated financial implications. Major under spending due to under collection of revenue or poor planning is a clear example of a budget that is not credible and unrealistic.

Furthermore, budgets tabled for consultation at least 90 days prior to the start of the budget year should already be credible and fairly close to the final approved budget.

Section 10 - Expenditure on allocations and grant programmes

Grant allocations

Details of each grant to be received and spent are shown in the schedules SB7 to SB9 attached to the report.

Section 11 - Allocations and grants made by the Municipality

Allocations Made by the Municipality

No allocations are made by the municipality.

Section 12 - Councillor Allowances and employee benefits

Salaries, Allowances and Benefits

Details of Councillor Allowances and employee benefits are included in supporting table SB11 attached.

Section 13 - Monthly targets for revenue, expenditure and cash flow

Monthly Cash Flows by source

Supporting tables SB 12 to SB 17 show the adjusted monthly cash flows.

Section 14 - Adjustments to the quarterly service delivery and budget implementation plans - internal departments

Supporting table SB3 indicates the major adjustments.

Section 15 - Annual budgets and service delivery agreements - municipal entities and other external mechanisms

ENTITIES

The municipality does not have any entities.

Other Service Delivery Mechanisms.

The municipality has service delivery agreements with external parties for the delivery of the Municipality's services.

Section 16 - Contracts having future budgetary implications

No exceptions noted that will have future budgetary implications.

Section 17 - Capital expenditure details

Capital expenditure details are listed in Supporting Table SB 18 to SB 19.

Section 18 - Municipal Manager's quality certification

I, _____ Municipal Manager of Matzikama Municipality, hereby certify that the adjustments budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the adjustments budget and supporting documents are consistent with the Integrated Development Plan of the Municipality.

Municipal Manager of Matzikama Municipality (WC011)

Signature

Date